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REVIEW OF RECENT EXPERIENCE IN PUBLIC ENTERPRISE REFORM AND PRIVATIZATION IN AFRICA

M91-350

INTRODUCTION

1. In recent years, public enterprises reform and privatization have again become a topical policy issue in the dialectics of economic recovery, transformation and sustainable socio-economic development of African countries. The general economic malaise in which these countries find themselves and the pervasive dissatisfaction with the social and economic performance of public enterprises (PEs) have encouraged the argument that PEs must be rationalized and made more efficient and cost-effective.

(a) Rationale of report

2. African countries, no doubt, share the universal recognition of PEs as viable instruments of social and economic development. Current issues and concerns about the role of PEs in development have arisen because of the poor performance of these enterprises and their exacerbation of budget deficits, indebtedness and shortages of goods and services. In the circumstances, it is imperative to survey and review recent experiences in PEs reform and privatization with a view to providing public policy decision makers with an opportunity to compare and contrast empirical lessons in order to improve and strengthen development policy formulation and implementation in each African country.

3. The report, thus, perceives reform and privatization as some of the crucial measures that governments have contemplated and are undertaking to eliminate actual and possible deficiencies which impel PEs to become financial and social burdens on taxpayers and the national treasury. The upsurge of concern for the performance of PEs must, therefore, be appraised in the context of Africa's quest for a pragmatic and sustainable economic development strategy. In this regard, the African Alternative Framework to Structural Adjustment Programmes (AAF-SAP) for socio-economic recovery and transformation cautions that, in establishing a pragmatic balance between the public and private sectors, account should be taken of the specificity of the social and economic forces at play in each country.[1]

4. The approach to the issues should, therefore, be realistic and objective. Preconceived ideas and instincts must not be allowed to stifle or substitute efforts to critically analyze and review the performance of PEs on a case-by-case basis. Obviously, some PEs can be as efficient or as inefficient as private enterprises. Similarly, the latter could benefit from reform and privatization of PEs. It is also essential to bear in mind that privatization does not automatically confer efficiency onto enterprises. Given the excruciating budget deficits and debts and the determination of African leaders to improve the quality of life of the populations, all African countries have embarked on comprehensive public policy reforms, including dialogue and practical measures, to improve the role and performance of PEs. There is need to take stock of progress so far made in the reform and privatization of these enterprises in some African countries.

(b) Definition of concepts

5. In order to evolve a uniform understanding of terminology in this report, there is need to define concepts such as (a) public enterprises; (b) reform; and (c) privatization. It would be unrealistic to expect consensus on the definitions. Nonetheless, this attempt would put discussions in their proper perspective and provide the leeway for differences of views. The definitions have been derived from the logic of some case studies and from contemporary practice in corporate management and studies in development administration. Needless to underline the fact that inadequate clarification of concepts has been known to distort the management of public enterprises.

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[1] See document E/ECA/CM.15/6/Rev.3: African Alternative Framework to Structural Adjustment Programmes (AAF-SAP) for Socio-Economic Recovery and Transformation, 1989 pp. 27 and 35.

(i) Public enterprises (PEs)

6. The proliferation of PE forms and structures in African countries calls for clarification of the usage of the expression "public enterprise" in this report. PEs could be defined as firms or companies in which the government has a financial stake of any magnitude in the form of equity shares or common stock and/or other classes of shares; outright loan capital from public coffers; or underwriting of the repayment of funds borrowed by the enterprise. Almost any definition of PE as a concept would be controversial. A write-up on Ghana's experience, for instance, argues that "public enterprises are enterprises whose capital is wholly or substantially provided by central government or institutions set up by the central government" and that the expression "State-owned" enterprises (SOEs) is a more popular term than public enterprise.[2] Similar arguments with varying shades of differences are commonplace in all African countries.

7. In defining public enterprises, it is essential to be explicit on implications for investment, output, marketing and development decisions. Ownership, for instance, in terms of more than 51 per cent equity shares may not necessarily confer majority rights onto the Government. Case studies from Zambia, Cameroon, Botswana, etc., demonstrate that minority equity capital holders can arrogate critical economic decisions to themselves to the detriment of the host government. Thus, in defining enterprises as parastatals, SOEs, public corporations or public enterprises, it is important to be explicit about the nuances of the enterprise arrangements that are under consideration. Sources and parties to the obligations of investment funds in terms of capital structure, long term and current liabilities are of essence in the definition of public enterprises, reform and the privatization decision.

(ii) Reform

8. Reform refers to the process of analysis and implementation of changes and measures which will bring about an improvement in the technical and economic efficiency of enterprises or other productive organizations. Technical efficiency deals with the capability of an enterprise to produce/supply the quality of goods and/or services for which it was conceived and established. Economic efficiency entails input/output relationships and connotes the capability to produce envisaged goods and services at an optimum level or at a level in which there is no wastage of resources and hence the cost of production/supply and distribution is lowest.

9. The analysis and implementation of changes to improve the performance of PEs should basically be both at the macro-economic environment level and at the enterprise or micro-economic level. Measures such as price decontrol, foreign exchange regime management, and creation of a conducive business climate are macroeconomic in nature while enterprise-level measures include diagnosis and prognosis of enterprise problems and prospects; reorganization and rationalization of enterprise structure, operations and management functions. Reform processes could result in the establishment of innovative relationships such as contract plans with the Government, especially with regard to enterprise autonomy, financing and employment of personnel.

10. The essence of reform is that, based on objective analysis of the enterprise environment, and all ramifications of the enterprise operations, action is taken at all levels to make changes which would strengthen and ensure that the PE operates efficiently and achieves the mission and objectives for which it was established in the first instance, or as warranted by redefined and re-articulated circumstances. In simple terms therefore, reform is a catchall for making changes that will bring about improved and efficient

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[2] Kwasi Anyemedu, Review of Recent Experience in Public Enterprise Reform and Privatization: Selected case study in Ghana, Sept. 1990.

performance of public as well as private enterprises. In the context of this report, privatization including the liquidation of PEs so as to improve the performance of the remaining PEs could be regarded as a reform measure.

(iii) Privatization

11. Privatization refers to the transfer or conversion of a State-owned enterprise or an enterprise in which the Government has a direct or indirect financial stake into a private sector enterprise. Thus, it involves transfer of enterprise ownership or possession from the public to the private sector. Liquidation of a PE and sale of its assets fall within the purview of this definition only if the liquidated public sector assets are used by the private sector to produce similar or different goods and services.[3] The assumption in this report is that the privatized enterprise does not go out of business but continues as going-business entity in the private sector after the divestiture of Government ownership. Without this assumption, the argument that privatization of existing PEs does not create employment becomes much more tenable. The transfer of enterprise ownership from the private sector to the public sector is generally referred to as nationalization. In the same vein, denationalization can be used as a synonym for privatization.

12. Some countries have introduced variants of the concept of privatization to reflect the particular circumstances of their own environment and corporate practices. Thus, in some situations, privatization is synonymous with deregulation. In other situations, PEs are rationalized and classified as fully privatized, partially privatized, fully and partially commercialized enterprises, and public institutions.[4] The implication is that each country tends to interpret and operationalize the concept of privatization based on the uniqueness of its own prevailing enterprise structure, development environment and public policy or the preferences and psyche of civil servants, academicians and political leaders. Notwithstanding, the lack of consensus on the interpretation of privatization as a concept, the caveat is that each country should evolve an explicit and common understanding of terminology to avoid misunderstanding and distortions which may arise, not only from fundamental issues, but also from semantics.

13. More often than not, issues on PEs and privatization concentrate more on legal ownership or possession and less on the essence of control, management and entrepreneurship. Thus, whereas privatization, like nationalization, could be accomplished by a stroke of the political pen, the critical issues are the entrepreneurial and managerial skills which are the cornerstones of corporate management in the private sector. In the African context, therefore, privatization must be operationalized beyond the mere change of enterprise ownership. Comprehensive PE reforms would be expected to include privatization and revamping of the dynamic requirements of corporate management.

14. Liberalization of investment opportunities and participation by all interested parties in profit-making ventures as recently announced by the Government of the Peoples' Democratic Republic of Ethiopia, for instance, must not be confused with privatization either of the economy or public enterprises. Privatization connotes change of mere ownership of existing enterprises in which the Government has a financial stake. Economic liberalization and privatization, if efficiently and effectively implemented, could enhance competition to the advantage of public and private sector enterprises.

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[3] See Raymond Vernon's contention in "Economic Aspects of Privatization Program" (The World Bank: The Economic Development Institute, March 1987) p.1.

[4] The Privatization Scheme of the Federal Government of Nigeria Groups PEs into five categories comprising PEs to be fully privatized; PEs to re partially privatized; PEs to be fully commercialized; PEs to be partially commercialized; and public institutions. Each category has specific rights and obligations to improve and strengthen performance.

15. Expressions such as "fully privatized" public enterprises would refer appropriately to PEs that have become private sector enterprises and as such the Government is no longer a partner in their ownership and management. Similarly "partially privatized" public enterprises would suggest that there is partnership between the Government and private sector persons/firms in the ownership and management of the enterprises. It could, in fact, be argued that the current usage of the term "parastatals" ought to be ascribed to "partially privatized" public enterprises.

16. More clarity is required in each country with regard to the "public" and the "enterprise" dimensions of public enterprises. The "public dimension" entails public purpose, public ownership and public control while the "enterprise dimension" deals with the commercialized economic activities of PEs as distinct from social services and regulatory agencies.[5] Thus, privatization as a change of enterprise or institutional ownership from the State of Government to private sector ownership should be preceded by an explicit understanding and analysis of the issues at stake. The emerging consensus seems to be that privatization alone is not the panacea for the improved performance of PEs and the national economy. Nonetheless, privatization as an aspect of PEs reform could enhance the formulation and implementation of comprehensive public policies on national economic management for sustainable development.

(c) Coverage and methodology of report

17. Privatization has been part of policy dialogue and conditionality between donors and recipient nations since the late 1970s.[6] The experience of African Governments in the implementation of privatization programmes has, however, been recent, stretching back, as exemplified by Ghana, to the early 1980s and gathered momentum through the late 1980s at the insistence of IMF and World Bank. Lessons of experience have, therefore, been cited from countries with IMF/IBRD adjustment programmes and from other randomly selected African countries. Lessons have also been drawn from the relatively more proven experiences of some industrialized countries.

18. Case studies have been used to provide empirical foundations for the review of experiences; to articulate issues that may be considered as pertinent to the formulation of reform and privatization programmes; and to put forward proposals for public policy action. In addition, use has been made of other published and unpublished literature; experiences from other countries; and economic logic to strengthen the review of African experiences.

19. After this introductory section of the report, section I deals with the need for a common understanding of the development implications of public enterprises reform and privatization; Section II overviews country experiences and lessons from the issues; and Section III concludes the report with recommendations for public policy action to grapple with the development challenges which African countries face in the 1990s and beyond.

DEVELOPMENT, IMPLICATIONS OF PUBLIC ENTERPRISES REFORM AND PRIVATIZATION

20. In virtually all countries, public enterprises are involved in the direct production of goods and services. Reasons for this involvement and the magnitude of PEs in the economy vary from country to

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[5] Pavle Sicherl, The Role of Public Enterprises in National Development (Ljubljana, International Center for Public Enterprises in Developing Countries, 1983) p.13.

[6] Nicolas van de Walle, "Privatization in Developing Countries: A review of the issues", World development, Vol. 17, No. 5, Pergamon Press 1989.

country. In the case of African countries, it could be argued that the post-independence aspirations and expectations of the populations impelled African leaders to search for urgent answers to resolve the pressing demands of the people for improved quality of life. The driving motive force for the initial establishment of PEs in African countries has, therefore, been developmental in nature. A dispationate study of Nkrumah's ideology and State Enterprises, for instance, concludes that PEs were established extensively to promote economic growth and human progress and not to serve ideology.[7] The failure of PEs to meet the development expectations of the people should not, therefore, diminish the good intentions of the Founding Fathers of African independence and development initiatives. Reform and privatization should, in fact, be construed as an attempt to systematize and improve the role and functioning of PEs as one of the instruments of national socio-economic development.

(a) Significance of PEs in Africa's development paradigm

21. On the eve of political independence, the private sector in nearly all African countries was either rudimentary; in the hands of aliens and the indigenous people alienated from assets ownership and entrepreneurial culture; or the sheer imperatives of the survival of 80 to 95 per cent of the population in subsistence agriculture meant that there was no significant capital owning class to give fillip to the evolution of a viable private sector. In the circumstances, the onerous responsibilities for nation-building and socio-economic development were thrust upon the political leaders. PEs were handy and considered as the basic tool available for speeding up the process of economic and social development. Today, the private sector in most African countries is still underdeveloped, the indigenous population is still engaged in subsistence agriculture, and the majority of the population still looks up to the Government for leadership in economic and social development.

22. It is, therefore, no surprise that PEs operate in almost all sectors of the economies of African countries. In some 30 African countries, for example, there are as many as 3000 public enterprises.[8] In Tanzania, for example, there are more than 400 PEs[9] spread across all economic sectors. In terms of contribution to the gross domestic product (GDP), whereas the worldwide average share of PEs in the GDP is about 10 per cent, in Africa this figure is in the range of 6.8 per cent (Liberia) to 40 per cent (Sudan). In a number of countries, PEs dominate the modern sector of the economy in terms of investment, production and commercialization. For example, PEs account for as much as 90 per cent of manufacturing value-added (MVA) in Ethiopia, about 80 per cent in Somalia, more than 50 per cent in Zambia, and some 40 per cent in Cameroon. In the Maghreb, the number of public enterprises is also considerable. It is estimated, for instance, that there are about 320 PEs in Tunisia, 2800 in Algeria and 700 in Morocco.[10] The magnitude and depth of PEs in the economies of African countries suggest that reforms and especially privatization must not be undertaken hastily. The social and economic dimensions of reform and privatization must be understood and appreciated by all concerned with the human dimensions and realities of Africa's sustainable development requirements.

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[7] K.B. Asante "Privatization of public enterprises: The case of Ghana", in public enterprises performance and the privatization Debate: A review of the options (AAPAM, 1987) pp.416-445.

[8] World Bank files: as reported in John R. Nellis, Public Enterprises in sub-Saharan Africa (Washington D.C.) IBRD Discussion Paper no. 1, 1986.

[9] Rwekaza's Mukandala, "Successful Cases Among Public Enterprise in Tanzania: A case study of the national development corporation (NDC) in ECA/PHSD/PAM/90/11[1.2(ii)(a)], Addis Ababa, 1990.

[10] Mostafa Rhomari, "La privatisation des enterprises publiques en Afrique", ENAP, Rabat, Morocco, 1990.

(b) Challenges of Lagos Plan of Action (LPA) and AAF-SAP

23. The Lagos Plan of Action (LPA) and related African initiatives, culminating in the African Alternative Framework to Structural Adjustment Programmes (AAF-SAP) and the 1990 African Charter for Popular Participation in Development (ACPPD) have not absolved PEs from their role as one of the tools of social and economic development. Instead, the new development directions embodied in the LPA, APPER, UN PAAERD, AAF-SAP and ACPPD expect improved PEs performance to meet the new development challenges in agriculture and related activities; basic and core industries; commerce and distributive services; financial management services; natural resources endowments and environmental requirements of development; transport and communications; science and technological issues.

24. It is evident from empirical studies that concern, analysis, and dialogue on the general characteristics, problems and prospects of PEs are underway in all African countries. Reviews of efforts-in-progress indicate that, in addition to a review of the public sector, especially the administrative systems, the review of PEs performance has not been undertaken in isolation. There is consensus that a symbiotic relationship exists between PEs and private sector enterprises (PEs). The thrust of measures has been in the direction of reforms and selective privatization as an aspect of reform measures. The main aim is to ensure that PEs achieve the objectives for which they were established. The emerging approach is to posit reform and privatization in the context of the basic new directions of development policy to improve and strengthen the overall management and performance of the national economy.

25. Among the various efforts made at the regional level, the ECA, in collaboration with the UNDP and the participation of African Governments, is the launching of a Special Action Programme for Administration and Management (SAPAM), aimed at, among other things, developing and strengthening national capacities for public policy and management reforms to speed up the process of the realization of the objectives of the public sector. The improvement of the performance of PEs constitutes one of the preoccupations of the SAPAM project. The SAPAM proceeds from the premise that, for the public sector to play a meaningful role in the socio-economic development of African countries, the policies and strategies on management and administrative reforms must shift from rhetoric to pragmatism as well as dynamic practical action. There must be objective dialogue with and among African Governments on the identification and resolution of factors which have hitherto impeded the optimal mobilization, allocation and utilization of domestic and international resources for development.

(c) Perspectives of ownership, control, management and entrepreneurship

26. The LPA mandate on human resources development has continued to be pursued. Efforts underway in most African countries include intensive use of relevant in-service-training and human resources development facilities to cover a cross-section of PEs managers and administrators. The need for joint training and human resources development programmes for PEs and PSEs personnel has been recognized but has yet to be concretized by most African countries. Financial resource constraints are obvious bottlenecks. It is, however, imperative to translate political commitments into practical commitment of resources for co-operation in the training and development of managerial and entrepreneurial skills.

27. Institution-building through the creation of a conducive environment and networks among management and administrative institutions in Africa, the encouragement of exchange of ideas, expertise, teaching and research interaction are all envisaged in the SAPAM project. The regular monitoring of PEs performance, it has been recognized, will provide political leaders and other policy-makers in Africa with empirical and timely data on the short- and long-term human resources requirements of PEs, in particular, and the economy as a whole.

28. Shortage of management and entrepreneurial skills in most African countries has had adverse impact on the staffing of PEs with competent local personnel. In some cases the few competent persons who may be available may not have the political clout to be considered for positions of responsibilities in the public sector. Other competent persons who also have political influence may be put in positions in which their qualifications and expertise are inappropriate. It could also be argued that deficiencies in management expertise have contributed to the slow pace of economic and PEs reform in Africa. African countries have continued to rely on foreign expertise to advise and help in the preparatory work that is required for PEs reform and privatization. The impact of inadequate managerial skills is so acute so much so that in some situations European expatriates are appointed as liquidators of PEs. Some political leaders do not have confidence in the expertise of their own qualified nationals and would prefer European expatriates. Funding of the latter by foreign governments and agencies may be an additional incentive to prefer expatriate expertise. Everything taken together, there is no doubt that PEs in Africa are in dire need of qualified management accountants and financial managers. The lack of capable financial managers in African enterprises is legendary. It is perhaps the most serious cause of PEs inefficiency. Similarly, the lack of local expertise for the analysis of financial data and the updating of corporate accounts has also contributed to the inability of most African countries to make decisions on what to do with PEs which are in financial difficulties.

29. Indications from the cases reviewed are that the preparatory work for privatization is preoccupied with legal ownership change. This, no doubt, reflects the proper connotation of the term "privatization". Ownership could be both legal and economic in nature. Economic ownership involves the question as to who actually benefits from the possession of a thing [11] such as an enterprise. There is also the question of control of financing, investment, marketing, management and development decisions including the commitment of enterprises to external debts. Change of legal ownership is not synonymous with control. Similarly, improvement in management and entrepreneurial skills do not flow automatically from the reform and privatization of PEs. The Ghana experience argues cogently that the first step in ensuring effective control of reformed PEs is to clearly define the roles and functions of the various bodies in the larger public system which have something to do with the operations of PEs. Competent people must be appointed to supervisory boards and the boards must then be granted autonomy to corporate decisions.

30. Measures to improve managerial performance within PEs are also crucial for their effectiveness. Competence must be the deciding criterion for the appointment of public enterprise managers and the workforce. Management and skills training and development should seek to improve the skills of all personnel especially in diagnosing and solving enterprise problems, technical knowledge of machines, processes and products of their enterprises. Inside public and private enterprises management and operational skills are the same and as such joint human resources development programmes could enhance the performance of privatized and PEs to the benefit of the whole society. The essence of preparatory arrangements for the emergent challenges of control, management and entrepreneurship requirements of reform and privatization cannot, therefore, be underestimated.

31. Reform and privatization are intended to improve the efficiency and effectiveness of PEs. The thinning of numbers and trimming of the wasteful excesses of the latter through reform should make the public sector less unwieldly and hence more manageable. However, ill-conceived or hastily implemented reform and privatization programmes could wreak havoc upon the economic and social development course of a nation. In this connection, the experience of the Republic of Togo makes very interesting reading. The three cases under review deal with (a) plastic products made in Togo by a firm named Industrie Togolaise des Plastiques; (b) A corrugated-iron factory; and (c) Steel Mill. These projects, no doubt, reflect the desire of the Togolese Government, like any other government, to launch Togo into the industrial age in the mid-

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[11] Pavle Sichel, Ibid. "The Role of Public Enterprises in National Development".

1970s at the peak of a phosphate (a non-renewable natural resource) boom which attracted unscrupulous foreign investors, developed corruption on a national and international scale through overoptimistic market studies; no competitive bidding; grossly inflated cost of investment; protection of unscrupulous business investors by their own Government agencies such as the Swiss Export Risk Guarantee Scheme and the Swiss Credit Bank (Credit Suisse). Togo's debt today reaches $US one billion and SAPs impose drastic cuts in social services to the detriment of the Togolese people who must pay the economic and social costs of otherwise good public policy which unscrupulous international investors hoodwinked the Government to implement wrongly. Experts state that the profit which foreign investors made on some aspects of the corrugated-iron factory transaction were of an order that has to be qualified as immoral and fraudulent and the Togolese side could not be absolved from blame for imprudence in this affair.[12] The Togolese Government experience has been replicated in several African countries in varying forms. It must, therefore, be appreciated that foreign investors have their own interests to protect when negotiating to participate in PEs and private firms anywhere in the world.

32. Reform and privatization measures are being undertaken by the Togolese Government to enable the PEs make a fresh start. In the case of Industrie Togolaise des Plastiques (ITP), privatization, new management, a heavy infusion of capital by German, Dutch and Danish financiers and large write-off measures have been initiated to rehabilitate ITP. Because of the multitude of problems including malpractices of the foreign investors, the Government of Togo instituted commissions of enquiry into the corrugated-iron project, changed management and as from 1988 efforts were made to completely privatize the semi-governmental (parastatal) corrugated iron factory. The Steel Mill which was inaugurated in 1979 has always been in the red with dire consequences for the national budget. The Steel plant has been leased by the Togo Government to an American entrepreneur, John Moore, for 10 years at a total of Swiss francs 14 million compared to the investment value of 85 million Swiss francs. It is reported that the privatized Steel Mill has produced six times as many tons of steel per man under private management than as a PE.[13] In a speech in June 1985 the Togolaise Minister in charge of State Enterprises mentioned 18 firms which were at that time closed and awaiting rehabilitation.[14] In the meantime, the sunk costs of inadvertent government partnership with fraudulent foreign investors have contributed to the deteriorating living standard of the taxpayers. The Togolese experience is not unique. It reflects the extent to which malpractices could undermine the efficient performance of PEs and the helplessness in which a government could find itself when it attempts to reform and privatize parastatals which involve large capital outlays and fraudulent foreign investors.

33. The role of foreign partners in the poor performance and predicament of Africa's PEs, especially parastatals, needs to be fully documented or made public. The Togolese experience is only the tip of the iceberg. Zambia argues, among other things, that "people continue to agitate for privatization or reduction of Government direct involvement in various sectors of the economy. Not only is our policy that of mixed economy but many of our parastatal companies are in fact joint ventures with foreign investors. In certain

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[12] Richard Gerster, "How to ruin a country; the case of Togo" in ifda dossier May/June 1989, pp 25-30. The Togolese Government Policy of industrialization was a good one and that is why the unscrupulous investors found it easy to outwit the unsuspecting local negotiators who had no cause to imagine that they could be cheated by investors from advanced countries.

[13] United Nations, Role and extent of competition in improving the performance of public enterprises, proceedings of a United Nations interregional seminar on performance improvement of public enterprises, New Delhi, India, 12-19 April 1989, p.79.

[14] Op.cit. Richard Gerster, "How to Ruin a Country: the Case of Togo.

parastatal companies even management is the hands of external partners."[15] Foreign management of Tanzania's PEs has also been documented. For instance, in 1969, 25 out of 32 Tanzanian PEs managements were under foreign management or expatriate management and in 1982 the foreign factor in subsidiary PEs management was reflected in the presence of eleven expatriate management arrangements.[16] The foreign investors and foreign management syndrome in Africa's PEs cannot be swept under the carpet in the reform and privatization processes and measures. The magnitude of the problem of reforms would require the intervention or involvement of the IMF/IBRD and, of course, the expertise of the nationals of each country. African countries which have IMF/IBRD SAPs routinely benefit from advisory services on PEs reform and privatization. The caveat is that piecemeal measures to reverse the misfortunes of PEs amounts to nibbling at a problem that requires comprehensive action on the lines of the Ghana PEs reform and privatization programme which has already been cited in this document. The critical importance of prudent preparatory work and objective analysis of the issues at stake cannot be overemphasized. These issues do not stop at change of legal ownership but must include the ramifications of plans for economic control and human resources development skills in corporate management and entrepreneurship.

SECTION II

STATUS OF COUNTRY EXPERIENCES AND LESSONS FROM THE ISSUES

34. The relatively recent experience of African countries with PEs reform and privatization indicates that privatization is no more a solution to the problems of State-owned enterprises (SOEs) than the SOEs were a solution to the socio-economic development problems they were created to solve. The problems of PEs are not basically in legal ownership but rather could be attributed to the lack of explicit goals and objectives, absence of organization and management as well as entrepreneurial culture; inadequate systems that support and encourage the accomplishment of planned goals and objectives.[17] President K.D. Kaunda, Republic of Zambia, points out that "if the concern is that parastatal companies are badly managed, wasteful and loss makers, the answer does not lie in privatization but in establishing competition against parastatals and exposing their inefficiency through better results of private enterprises. Taking over existing business only means change of ownership. It does not represent new investment or creation of new employment opportunities. In most cases the result is just the opposite." It is thus arguable that management inefficiency is not unique to PEs and as such reform of the overall economy would improve both PEs and private sector enterprises.

A. Justification for PEs reform and privatization

35. The experiences of African countries are in consonance with the AAF-SAP position that rather than advocate wholesale privatization as an article of faith, privatization should be pursued within the context of economic transformation including the need to strike an optimal balance between the attributes of the public and private sectors in national development. The efficiency of all enterprises could be harmonized and harnessed to co-exist as partners in the economic recovery and development efforts of African nations.

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[15] President K.D. Kaunda, Republic of Zambia, in an Address to the 1990 National Convention of Zambia, cited by Mbikusita-Lewanika in a study on "Reform and Privatization of INDECO Group of Companies, 1985/86 to 1988/89.

[16] Op. cit. Rwekaza Mukandala.

[17] Heidi Vernon-Wortzel, and Lawrence H. Wortzel, "Privatization: Not the only answer" in World Development, Vol. 17 No. 5, pp 633-641, Pergamon Press plc, 1989.

36. There is also the view that the historical perspectives of PEs in Africa should not be ignored. As President Kenneth Kaunda, for instance, pointed out at the 1990 National Convention of Zambia, "at independence everything, including the vital areas of the national economy was controlled by foreigners. In such a situation, it becomes the primary objective to remove foreign domination of our national economy and establish local control of the economy if political independence was to be meaningful. Zambians did not have capital with which to take over business from foreigners. Worse still, Zambians lacked management skills". The establishment of PEs in African countries should, therefore, be appreciated in a pragmatic context and as a means to an end. The factors which led to the dominance and the inefficiency of PEs in Africa on the eve of independence have not been resolved. It is expected that economic reforms, including selective privatization, would gradually lead to the evolution of a conducive socio-economic environment for both public and private enterprises as well as reduce State participation in commercial production to a level that is commensurate with the social and economic realities of each African country.

37. It is also generally agreed that reforms could improve the performance of PEs through the stimulation and expansion of competition. The exposure of PEs to competition would also influence the performance of private sector enterprises to the advantage of the whole society. Today, PEs enjoy monopoly power which is either inherent in the nature of their protected status and functional areas or due to the sheer political leverage of PE managers and public sector workers. Competition would also compel PEs to better understand and adapt to the essence of property rights which are incumbent upon enterprise owners. The rights of enterprise property owners carry with them the obligation to maximize the value of the enterprise. This entails investing wisely, managing efficiently, and forward planning to increase the net present value of the enterprise.[18] Exposure of PEs to competition would, thus, push personnel and the Governments to appreciate the fact that mismanagement of public property rights could lead to the liquidation of PEs. In principle, African countries have agreed on the essence of exposing PEs to market competition and are actively exploring ways and means of translating the acceptance of competition strategy into practical measures. Even so it could be argued that privatization does not automatically put capital and entrepreneurial skills into the hands of peasants who constitute 70 to 90 per cent of the population of almost all African countries. In this regard, privatization should be considered as an aspect of reform and not as a panacea for the improvement of PEs performance.

B. Methods and techniques of PEs reform and privatization (PERAP)

38. Methods and techniques used in PERAP depend on the magnitude, configuration and evolution of PEs in each country; a country's political-economic development strategy; the conditionality of aid donors and international financiers such as the IMF/IBRD and multinational commercial banks; and the extent to which PEs are responsible for the budget deficits, public debts and the deteriorating economic performance of the nation. The interpretation and requirements of these impinging factors would influence PERAP methods and techniques.

39. Similarly, PERAP methods and techniques will be influenced by the diagnosis and prognosis of performance problems; availability of local and aid-sponsored expertise; and the clarity of the goals and objectives to be attained as a result of the reform and privatization exercise. A review of experiences in some African countries indicates that the following methods and techniques of PERAP are underway:

(a) Institutional organization for PERAP programme: the Ghana experience is a case in point;

(b) Advisory services/support arrangements for piecemeal, PERAP: examples abound in several African countries including Zambia, Benin, Guinea (Conakry), Cameroon, Nigeria, etc;

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[18] Op. cit. United Nations Interregional Seminar on Performance Improvement of Public Enterprises, p. 81.

(c) Injunction on the creation of new PEs and/or the expansion of existing numbers/operations of PEs;

(d) Reduction of subsidies to PEs;

(e) Price decontrol and deregulation of market forces;

(f) Contract plans between PEs and the Government to ensure that PE autonomy is guaranteed and performance targets drawn up and agreed upon between the enterprise and the Government are achieved;

(g) Encouragement of profit-oriented corporate management practice and entrepreneurial attitudes in PEs;

(h) Introduction of a mandatory dividends and tax payments policy by public enterprises and the directive to all PEs to meet all their financial obligations from their own resources without recourse to the Government for subventions;

(i) Combination (as reflected in the Zambian experience) or blending of home-brewed PERAP programmes with standard conditionality recipe of IMF/IBRD;

(j) Reorganization and clarification of the mission, objectives, operations, pricing and management functions of individual PEs;

(k) Outright sale of a PE through a public shares issue to encourage popular participation in business ventures;

(l) Transfer of economic ownership and control to the employees for self-management as evidenced by the Choma Milling and Pork Products Companies transfers in Zambia and the Food Production Corporation in Ghana;

(m) Sale of equity shares by tender or at fixed prices with priority of allocation to local/indigenous investors;

(n) Debt-equity swapping, especially with foreign financiers and investors;

(o) Joint venture initiatives by the Government in partnership with local and/or foreign investors, including a review of existing partnerships in parastatals;

(p) Liberalization of the national economy to create the enabling environment for competition and economic efficiency; and

(q) Liquidation of PEs.

40. The foregoing methods and techniques of PERAP are not exhaustive but are reasonably representative of the experience of African countries. They have also been classified into reform and privatization methods because privatization should be perceived as an integral part of reform. African countries have, however, initiated multidimensional socio-economic measures to improve the functioning and management of the public sectors of their economies. Because of the relatively Limited experience these

countries have had with reform and privatization measures, an attempt has been made in the ensuing paragraphs to articulate some of the methods so far used by some African countries.

(i) Preparatory methods for PERAP

41. The preparatory stage of the Ghana PERAP programme began in 1984 when a group of local consultants undertook (between August and October) the collection of basic data on 101 enterprises, as a major step towards identifying the problems and weaknesses of the public enterprise sector (PEs). Based on fact sheets on each of their enterprises, a follow-up diagnostic study covering these enterprises at the State Enterprises Commission (the supervisory agency for public enterprises) was conducted by Berenschot-Moret-Bosboom (BMB), a Dutch consulting firm. The BMB study was reviewed by a joint Ghana Government/World Bank team of experts. The diagnostic study identified a number of major factors which had contributed to the poor and inefficient performance of the PEs include the following:

(a) Inadequate, inconsistent and unclear Government policies on what was expected of PEs;

(b) The sheer disproportionate size of the PEs relative to available management capacity;

(c) Inadequate managerial skills;

(d) Deficient incentives to stimulate better performance and higher productivit;

(e) Ineffective monitoring and evaluation of enterprise performance;

(f) Insufficient capitalization and shoddy working capital management;

(g) Adoption of outmoded accounting and financial management systems;

(h) Deficient input supplies and output delivery management;

(i) Too frequent changes in top management personnel; and

(j) Excessive political interference in the day-to-day operations of the PEs.

42. In November 1985, the Ghana Government set up a Task Force on Public Enterprise Reform (PER) to formulate a package of reform measures for PEs which could be implemented in the medium-term (1986-1988) as part of Government's Structural Adjustment Programme. The PER Task Force completed a draft report in April 1986. A seminar was organized to discuss the PER Task Force draft report and final report on PER was prepared covering the following:

(a) Policy reforms to ensure that public enterprises operate in a commercial manner; new policies and procedures were in place on government financial support for PEs, and strict limits on the creation of new PEs;

(b) Institutional and legal reforms to ensure that public enterprise managers have autonomy, in theory and in practice, in the day-to-day operations while also strengthening their accountability to government and the public;

(c) Rationalization of PEs through Divestitures and Mergers to reduce the financial and managerial burden on the Government;

(d) Rehabilitation of selected priority PEs; and

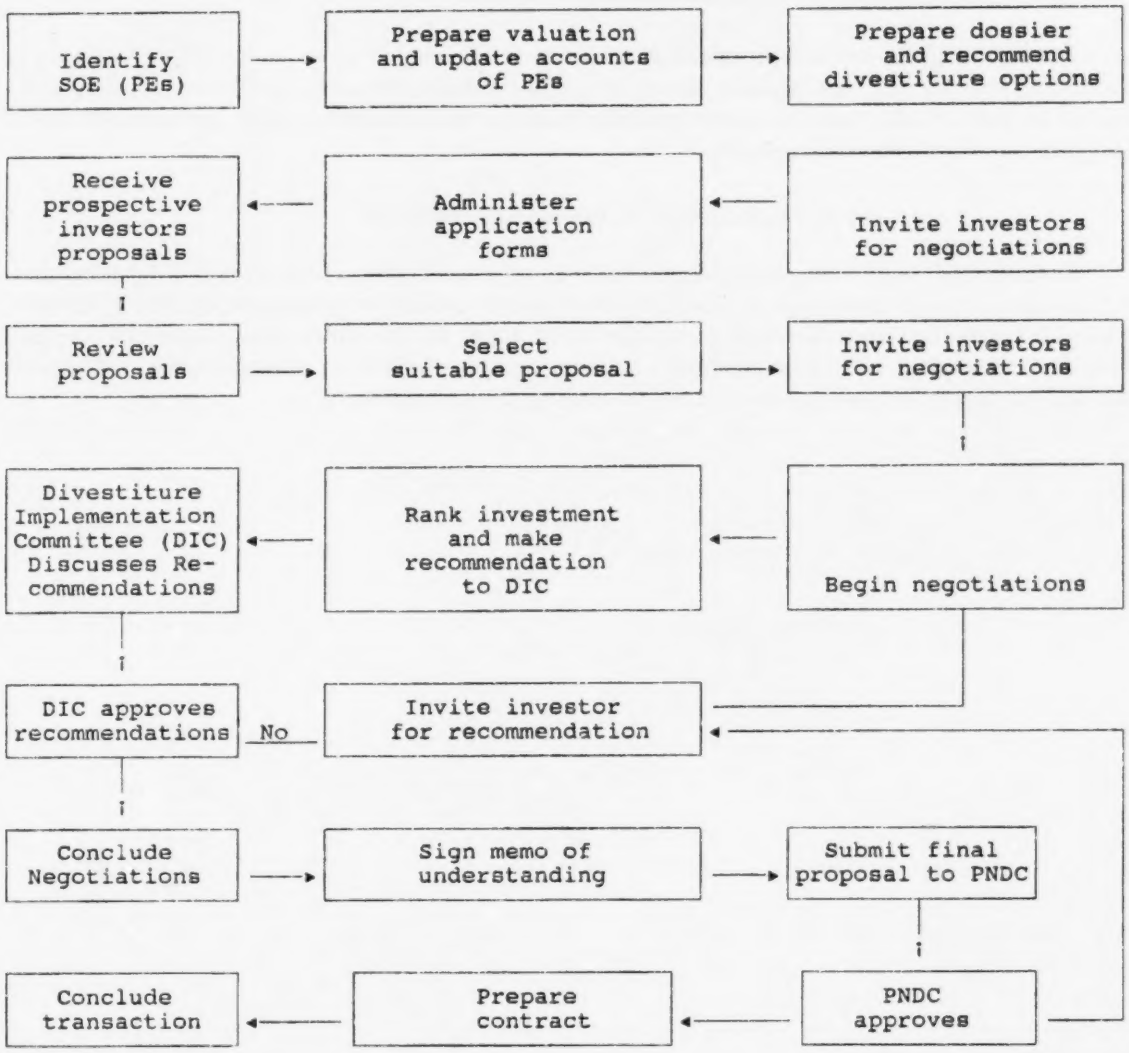
(e) Improvements to PE management and efficiency.

Thus, the measures underway in African countries to reform PEs could be divided into (a) privatization or divestiture of selected PEs; (b) measures aimed at improving the performance of those enterprises which remain in the public sector; and (c) macro-economic measures to liberalize centralized government control of every aspect of economic management.

(ii) Institutional flow chart for divestiture programme

43. Divestiture through outright liquidation and sale of selected PEs would seem to be gaining more momentum than the other techniques of PERAP. The Ghana divestiture programme experience is pertinent. As agreed between the Ghana Government and the World Bank, the Divestiture Programme (DP) initially involved the divestiture of 32 public enterprises covering agriculture (fishing), manufacturing, and services (hotels and drydock). As depicted in the decision-making divestiture flow chart.

DECISION-MAKING AND ANALYSIS FLOW CHART FOR
GHANA DIVESTITURE PROGRAMME



Source: Secretariat - Divestiture Implementation Committee (DIC) cited in K. Anyemadu, op. cit Ghana Experience in public enterprises reform and privatization, 1984 to 1990.

44. The complexity of the decision-making process of PEs privatization is self-evident from Chart. In the Ghana experience, five already inactive enterprises were the first to be liquidated while the other five PEs were to be sold to the general public. Although 32 PEs had been identified for divestitute, the Ghana Government committed itself to flexibility in implementing the programme. Thus, PEs could be taken off or added to the list of PEs that may have earlier been earmarked for divestiture.

45. Although the Ghana Divestiture Programme appears comprehensive and carefully structured, no standard divestiture or privatization options have been adopted. A Divestiture Implementation Committee (DIC) was established to oversee the implementation of programme. The DIC is assisted in its work by a Technical sub-committee made up of a financial analyst, a legal adviser, an accountant, a valuer, an industry expert, and other members that may be co-opted from time to time.

46. The terms of reference of the DIC include (a) the management of divestiture of the State's interests in such statutory boards and corporations or companies as the PNDC shall from time to time determine; (b) co-ordination of the divestiture programme in businesslike and timely manner; (c) ensure consistency in divestiture processes and methods, especially with respect to the analysis required, valuation procedures, bidding arrangements and negotiating the sale of shares and settlement of claims; (d) harmonize issues such as redeployment/compensation which may require some uniformity across various divestitute options; (e) ensure that appropriate consultations are undertaken and government objectives in the divestiture process is communicated effectively to the general public; and (f) draw lessons of experience from divestitures to new initiatives.

(iii) Divestiture procedures

47. The divestiture process, based on the Ghana experience, comprises several steps. The accounts of the earmarked enterprises are updated and the enterprise and feasible divestiture options outlined. These options may include liquidation, leasing, sale of enterprise, etc. Once the appropriate divestiture has been chosen, the intended divestiture is advertised in the media, investor proposals are received, reviewed and the best offer selected. The investor who submitted the winning offer is invited for negotiations with the DIC. If agreement is reached between the latter and the DIC, then a memorandum of understanding is signed between the DIC and the investor. The signed agreement is then submitted to the Government (PNDC) for approval. If the PNDC approves, then a formal contract is signed to conclude the divestiture transactions. The PNDC could send the proposal back to the DIC (Chart) for re-negotiation with the investors. Problems encountered in the divestiture process include the slow progress of the programme due to bottlenecks such as updating of the accounts and valuation. Thus, technical matters can delay the implementation of divestiture programmes.

48. Other instructive divestiture experiences include those of Zambia, Nigeria, Benin, Guinea (Conakry), Senegal, Kenya, etc. In the case of Zambia, World Bank team of consultants was stationed in the country from April 1986 to propose and oversee a programme of management restructuring at the Zambia Industrial Development Corporation (INDECO). The consultants' mandate included the selling off or closure of operations deemed to be unviable, and to discourage new investments by INDECO. The Zambian Government authorities are opposed to wholesale privatization but welcome private citizen full or part-ownership interests in public companies. As a point of departure, Zambian authorities are much more inclined towards methods of public enterprise restructuring that concentrate on internal reforms. The political leaders have emphasized their positive disposition towards private, co-operative and even self-management private investment partners and sub-letting. Within this framework, the privatization approaches attempted in INDECO enterprises include the offering of joint shareholding to private companies, facilitating employees self-management ventures, utilizing external management consultancies and internal

management rationalization.[19] The INDECO reform and privatization programme consisted of a comprehensive examination of parastatal enterprises at the enterprise level and the economy-wide level. Financial profitability was the criterion used to determine whether or not an enterprise should remain in the public sector or should be privatized. Twelve companies were earmarked for privatization which were actually loss-makers.

49. For its own reform and privatization programme, Nigeria categorized its PEs into those that would be fully privatized. These consisted of hotels, insurance and transport companies. Partially privatized enterprises were in their own category and consisted of banks, parastatals such as Nigerian Airways and Newspapers. The third category of PEs comprised fully commercialized enterprises with shareholders from the private and public sectors. Examples of the third category enterprises include Nigerian National Petroleum Corporation (NNPC) and Telecommunications. The fourth category consisted of partially commercialized enterprises and the fifth category comprised public institutions such as cultural and educational concerns, water supply and hospitals. Categorization of PEs for the purpose of reform and privatization seems to be based on the specific realities of Nigeria rather than on explicit financial profitability criterion used as in the case of Zambia.

50. Other African countries have pursued diverse procedures of analysis of their PEs in readiness for the privatization and reform exercise. Guinea (Conakry) and other countries have attempted to lump together all PEs and to take action to reform, privatize or liquidate them based on criteria such as nature of enterprises and profitability. Generally, PEs could be categorized into strategic enterprises which the State may have to retain in the public sector; enterprises which are strategic but not viable; enterprises which are not strategic but are viable in the public sector; and PEs that are neither strategic nor viable. Experience from several African countries indicates that most countries use an admixture of criteria to decide whether or not to liquidate, divest and sale off or reform them. There are other issues such as government policy on foreign investments and participation in privatized and public enterprises which must be considered in a review of criteria for the choice of methods and techniques of reform and privatization of PEs by each African country.

51. In a study on a technical approach to privatization issues, Vernon articulates the decision choices confronting public authorities to include questions on whether or not the enterprises should be sold; to whom; and at what price.[20] African countries are grappling with the reform processes without the benefit of other African country-specific past experience to guide the present initiatives. Some governments that are short of cash may be hoodwinked into believing that liquidation or privatization would not only reduce budget deficits but would bring additional cash into the treasury. In practice such governments may discover that there are no takers or investors who are willing to risk their capital because of the politically unstable environment and low margins or the

availability of more lucrative investment opportunities in the industrialized or other more stable third world countries.

(iv) Performance improvement methods and techniques

52. The point has been made that privatization could be regarded as an integral part of PEs reform. The argument is that selective privatization would result in fewer PEs in the public sector. The privatized

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[19] Nbikusita-Lewanika, op. cit. Reform and privatization of the INDECO Group of Companies, 1985/1986 to 1988/1989.

[20] Raymond Vernon, "A Technical Approach to Privatization Issues" (EDI of IBRD, 1988).

enterprises will, however, not automatically become efficient. Without concerted efforts by private sector owners to rationalize and overhaul the newly acquired enterprises, there is no a piori reason to believe that the privatized enterprises would be any more efficient in the private sector than they were in the public sector. Wholesale privatization is, therefore, not an integral part of reform. In fact there is no country in the world today that can boast of one hundred per cent private sector ownership of enterprises. In the circumstances, performance improvement could enhance the productivity and cost-effectiveness of PEs which survive the axe of privatization.

53. A lesson could be learnt from the Ghana and Zambia PE improvement programmes. The Zambian argument is that internal reforms of PEs could bring about corporate efficiency in the same manner as owners of privatized enterprises are expected to turn loss-making enterprises around through performance improvement measures. Both Ghana and Zambia are two of the 36 African countries that have adopted World Bank/IMF SAPs. Therefore, the pattern of privatization and improvement programmes would have some aspects of IBRD/IMF conditionality inherent in SAPs.

54. Reform measures of the performance improvement variant are at the macroeconomic level and at the enterprise level, respectively. Macroeconomic level measures and techniques are not necessarily aimed at PEs per se. All economic actors in the economy benefit or suffer from macroeconomic level performance improvement policies of the government depending on the circumstances. Enterprise level performance improvement measures focus on individual PEs and entail the adoption of corporate management practices in PE operations.

55. Zambian macroeconomic measures which have implications for the improvement of PEs productivity, cost effectiveness and profitability include:

(a) Encouragement of private sector initiatives in new economic activities throughout the economy: this amounts to privatization of individual citizen initiatives in economic production instead of spoon-feeding which has tended to prevail in the country since independence in 1964;

(b) Measures to establish a stock exchange to provide a market for the trading of shares and stocks of public and private sector companies;

(c) Creation of conditions that are conductive to the functioning of a stock exchange such as environments without monopoly and supply rigidities;

(d) Encouragement of unfettered public participation in parastatals and also facilitating all round competition in all spheres of economic activities; and

(e) Formulating and implementing socio-economic development policies, strategies and plans which stimulate public participation in the long-term sustainable growth-with-equity.

56. In essence, therefore, macroeconomic improvement measures which have implications for PEs reform aim at evolving an enabling national environment in which competition would flourish. Full and fair competition between public and private enterprises[21] could be attained through the implementation of public policies which remove governmental barriers to entry and exit; stimulate the evolution of a competitive industry structure; provide equal access to loans and credit as well as to foreign exchange; ensure fair

[21] United Nations, op. cit. "Role and extent of competition in improving the performance of public enterprises.

enforcement of contracts; no price controls or subsidies; ensure equal access to raw materials, supplies and markets; guarantee equal application of laws on the hiring and termination of employees in both the private and public sectors; freedom to reorganize and change businesses with broad objectives; and no preferential protectionism. This idealized competitive environment is difficult to attain in practice but the point is that each African country has attempted to formulate macroeconomic policies to encourage competition within the specific realities prevailing in the country. Macroeconomic policies must, therefore, be tailor-made for each country.

57. Reforms at the enterprise level have taken various forms, all aimed at cost reduction, enhancement of productivity, profit-making management practices and entrepreneurship. Measures and techniques to bring about improvement of PEs performance at the microeconomic level include:

(a) Assistance in updating and modernizing accounting systems; and

(b) Preparation of corporate plans on lines similar to corporate practices in the private sector.

58. It should be noted that macroeconomic policies and enterprise level reform practices are mutually reinforcing. It must, however, not be assumed that policies and practices that have succeeded in the already industrialized countries would do well in Africa. Liberalization of domestic markets and privatization are a case in point. Some studies have shown that "Liberalization in countries where the exchange rate is overvalued, such as Mali and Senegal, is, however, harmful in that it exposes the self-sustaining sectors of the economy to competition from producers subsidized by the Government".[22] The doctrinaire approach of SAPs to liberalization and privatization in Africa has been misplaced. Empirical evidence from Senegal, for example, is educative. The liberalization of farm inputs in Senegal as in other African countries did not lead automatically to the replacement of the State by private operators. Similarly, the entry of private traders into cereals trading in the Sahel did not automatically take place after liberalization but requires promotional reorientation, and programmes of infrastructural and financial support. Whereas governments have a vital role to play in providing information, training and support to the private sector, SAPs do not seem to pay adequate attention to the developmental and supportive role of the public sector which is viewed narrowly to perform only bureaucratic and fiscal functions.

C. Assessment of PERAP results

59. At the outset, it should be appreciated that assessment of public enterprises reform and privatization (PERAP) in this section must be regarded as tentative and not conclusive. PERAP programmes in virtually all African countries are in the preparatory stages. In the circumstances, the appraisal of results so far attained can only be indicative of the likely trend of achievements. It is obvious that all African countries have accepted the essence of PEs reform and privatization. Differences of opinion are inevitable in the conceptualization and concrete operationalization of PERAP policies, strategies, techniques and programmes in individual African countries. Liquidation of PEs is, however, proceeding apace either as a result of desperate government action or cessation of operations due to obvious insolvency and inability to pay workers. Table 1 indicates the trend of progress in liquidation/closure and privatization of PEs in some African countries.

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[22] Enzo Caputo, and, Roberta Rebellotti, The instructive parenthesis of structural adjustment and the relaunch of research with action in sub-Saharan Africa (Institute Africano, Rome, March 1990) p. 7.

Table 1. Status of public enterprises privatization in some African countries

Country	Total number of PEs	Number of PEs to be privatized	Number of PEs actually privatized	Number of PEs liquidated or closed down
Cameroon	80	12	-	5
Côte D'Ivoire	113	20	4	15
Guinea	65	43	4	16
Kenya	180	20	-	5
Liberia	23	7	-	-
Madagascar	130	15	-	5
Mali	54	11	2	9
Mauritania	108	10	2	4
Niger	54	24	3	3
Uganda	130	67	-	1
Senegal	150	26	5	14
Sierra Leone	50	10	-	1
Sudan	136	-	7	10
Togo	73	40	12	11
Zaire	138	37	31	3

Source: Adapted from Mostafa Rhomari, "La privatization des enterprises publiques en Afrique" based on World Bank data sources.

60. The process of privatization of PEs is proving more protracted than expected. The question is not merely that of lack of takers but of takers who are acceptable to the Government or whose terms may not be attractive to the Government in terms of valuation and public policy issues of political sovereignty. There is also the question of public policy on popular participation in profit-making business enterprises. Most African Governments would detest the use of privatization to concentrate enterprise shares and stocks or investments in the hands of a few nationals. Yet normal privatization, that is, one undertaken strictly on business lines in a free market, would result in the concentration of investment wealth in the hands of a few capital owners. The question of lack of takers should, therefore, be perceived in its proper context. An unstable political environment alone could damage the investment climate and scare away prospective takers, irrespective of nationality.

61. In evaluating the PERAP results in Africa the experiences of Ghana are pertinent for more reasons than one. The experiences go back to the economic policy of the National Liberation Council (NLC) Government from 1961 to 1968. The Nkrumah regime established most of the State enterprises in Ghana, the NLC formulated privatization policy to rationalize the proliferation of PEs and successive Ghana Governments have continued to recognize the positive role of selected public enterprises in national development. Privatization attempts by the NLC Government failed. The NLC Government put 20 PEs out of 53 on the privatization or "sell" list-7 for oughtright sale and 13 to become joint ventures. The outcome was that only laundry, furniture, bakery and tyre service PE firms were sold. An attempt to sell the State pharmaceutical factory to Abbott Laboratories provoked a strong public outcry. The withdrawal of the pharmaceutical corporation sale marked the end[23] of the first attempt by Ghana to sell public enterprises. Ghana was, thus, less well prepared for privatization in 1968 than in the 1980s when the PNDC Government passed the Public Corporation Service Law to improve the financial and economic performance of Ghana's PEs.

62. Based on past experience, preparations for the 1984-1990 Ghana PERAP programme have been more systematic and early results of this second attempt are worth citing as a case study[24] which may be of interest to other African countries. The process of reform and privatization is still in progress in Ghana as in other African countries. The few enterprises that have been privatized have not operated long enough for their performance to be assessed. Some, such as the Continental Hotel which was sold to the Ghana-Libya Holding Company for $3.6 million has been closed down for rehabilitation and upgrading to a four-star hotel at a cost of $12 million.

63. With regard to "reformed" public enterprises, an attempt could be made to assess their performance for the last few years based on a report prepared by the Ghana State Enterprise Commission on the performance of 17 core State-owned enterprises. The State Enterprise Commission Report suggests that there has been considerable improvement in the financial performance of these core enterprises as shown in table 2.

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[23] Op. cit., K.B. Asante, "Privatization of public enterprises: The case of Ghana" pp. 429-437.

[24] Op. cit. K. Anyemedu, "Review of recent experience in public enterprise reform and privatization: Selected case studies in Ghana".

Table 2. Financial performance and selected indicators (Core SOEs 1986-1989)

Year	1986	1987	1988	1989
Sales	82.5	125.3	144.4	198.9
Cost of sales	55.3	94.1	90.9	115.5
Gross profit/loss	27.2	31.2	53.5	83.4
Admin. Sellg. & Distr. Exp.	7.2	20.4	26.5	34.5
Financial expenses	12.2	10	11.7	10.7
Other operating exp.	0	0	0	0
Operating profit/loss	7.8	0.8	15.3	38.2
Subsidies	0.7	15.1	5.5	10.2
Non-oper. Exp.	6.9	8.1	14.6	14.5
Profit/loss before tax	7.2	8.4	6.4	34.1
Provision for tax	0.2	0.4	0.5	1.2
Net profit/loss	7	8	5.9	32.9

Memo entries

Dividends	217,096	230,000	3,822,733	300,000
Depreciation	13,036,411	35,834,214	12,440,730	13,460,434
Employment	43,569	41,309	39,413	34,487

Source: State enterprises commission: Annual performance report (1989) on Core State-owned enterprises (draft), June, 1990.

64. The figures show that aggregate sales showed an increase of about 150 per cent between 1986 and 1989, or an average annual increase of around 50 per cent. Inflation averaged about 30 per cent annually over the period, so even the inflation adjusted sales increase will still be quite impressive. Both aggregate operating profits and net profits also showed increases. Employment in the enterprises concerned declined from about 44,000 in 1986 to 35,000 in 1989. While this has considerable negative implications, taken together with the increase in output and sales, they would suggest quite an impressive increase in labour productivity. The report recognized that the aggregate figures would be very sensitive to what happened in the two largest core enterprises, the Volta River Authority and the Cocoa Board. The report, therefore, presents information on an individual enterprise basis with respect to sales, operating profits, and employment. These figures are presented in tables 3, 4 and 5. An examination of the individual enterprise figures reveals that the improvements in output and sales were spread throughout the sector and not confined to the largest enterprises. Of the 17 enterprises, only in respect of two enterprises (State Transport Corporation and Ghana Supply Commission) were the sales figures in 1989 less than those of 1986. With respect to operating profits, only 6 out of 17 enterprises recorded operating losses in 1989; in respect of 5 of these 6, the losses in 1989 were less than those of 1986. An important question is the extent to which the improvements in performance can be attributed solely to the reforms.

Table 3. Sales of 17 Ghanaian PEs

Core SOE's	1986	1987	1988	1989
1. Ghana Cocoa Board	28.248,040	40,844,938	61,123,570	83,072,676
2. Ghana Airways Corporation	5,305,866	8,443,663	11,075,828	19,514,976
3. Electricity Corporation of Ghana	3,960,064	5,275,849	7,995,542	9,633,151
4. Ghana Water & Sewerage Corp.	2,710,305	3,578,926	2,157,912	6,229,104
5. Ghana Oil Company Limited	6,340,797	8,066,466	11,498,638	15,510,115
6. State Transport Corporation	1,329,891	2,007,825	1,081,082	948,139
7. Omnibus Services Authority	156,405	333,961	1,043,654	1,059,484
8. Ghana Supply Commission	62,516	109,063	107,744	200,676
9. Ghana Ports and Harbours Authority	1,129,141	1,974,571	2,817,380	4,570,853
10. City Express Services	962,361	773,604	1,129,667	1,109,406
11. State Shipping Corp. (BSL)	1,292,141	1,974,571	2,817,380	4,570,853
12. Ghana Railways Corporation	618,660	1,202,040	1,765,350	2,236,540
13. Ghana National Procurement Agency	3,332,871	4,717,020	4,082,515	6,799,999
14. Post & Telecommunications Corp.	1,851,346	2,949,027	6,091,239	7,000,257
15. Volta River Authority	-	12,529,403	20,601,638	28,899,008
16. Ghana National Petroleum Corp.	16,014,245	26,763,899	n.a.	n.a.
17. Ghaip	747,646	1,535,181	1,774,882	2,353,466
Total	82,528,233	125,305,853	144,428,631	198,851,769

Source: State Enterprises Commission

Table 4. Operating profit/loss of 17 Ghanaian PEs

Core SOE's				
	1986	1987	1988	1989
1. Ghana Cocoa Board	10,593,116	6,819,194	15,380,711	24,661,037
2. Ghana Airways Corporation	20,217	18,052	(1,240,464)	(733,783)
3. Electricity Corporation of Ghana	(4,931,744)	(5,123,665)	(4,601,201)	92,595
4. Ghana Water & Sewerage Corp.	364,092	(304,137)	(257,390)	562,688
5. Ghana Oil Company Limited	189,252	191,238	528,660	923,688
6. State Transport Corporation	(164,662)	(179,508)	(21,422)	42,289
7. Omnibus Services Authority	(140,682)	(644,247)	(636,265)	(855,831)
8. Ghana Supply Commission	(17,247)	(46,392)	(95,227)	(44,985)
9. Ghana Ports and Harbours Authority	(854,689)	(1,455,582)	54,447	2,284,701
10. City Express Services	(1,190,646)	(249,414)	(202,303)	(5,965)
11. State Shipping Corp. (BSL)	(388,716)	5,235	(440,590)	(37,352)
12. Ghana Railways Corporation	(764,140)	(807,350)	(1,219,930)	(1,114,140)
13. Ghana National Procurement Agency	1,548,045	1,493,463	1,290,636	1,353,468
14. Post & Telecommunications Corp.	398,633	426,593	1,386,694	1,996,672
15. Volta River Authority	(80,642)	1,377,669	5,346,686	9,175,773
16. Ghana National Petroleum Corp.	3,311,074	(932,682)	0	0
17. Ghaip	(25,904)	234,834	83,018	305,792
Total	7,865,357	826,301	15,356,060	38,606,322

Source: State Enterprises Commission

65. There can be little doubt that the improvement in financial performance is due in a large measure to the general improvement in the economic environment in which these enterprises operate. The greater availability of foreign exchange has meant that raw materials, spare parts and needed capital equipment have been available. This has enabled many enterprises to increase their level of capacity utilization and increase output. The more realistic exchange rate has, for instance, transformed the fortunes of the Ghana Cocoa Board. The decontrol of prices, and the greater freedom of the public utility companies to increase their charges have meant that these enterprises have been able to cover their costs and make some operating margins. It is more difficult to assess whether the improvement in financial performance reflects increased efficiency in the enterprises, although as already indicated, overall labour productivity has gone up at the expense of a reduction in employment from 43,569 workers in 1986 to 34,487 workers in 1989, a loss of 9,082 jobs as shown in table 5.

66. An assessment of the results of Zambian experience with its 1987/1988-1988/1989 PEs reform programme indicates that there has been some improvement in financial performance with a trend similar to that of Ghana. In addition, Zambia has addressed other socio-economic aspects of reform including issues on localization of local raw material resources; local human resources; local value added; capacity utilization; contribution to the Government treasury essential commodity supply; contribution to employment. Notes on the trend of these issues is briefly reviewed in the ensuing paragraphs.

67. Despite the volatile policy environment, the Zambian PEs reform programmes of management restructuring, capital investment and labour curtailment, were embarked upon and credited with profitable results, in such established loss-making enterprises as crushed stone sales limited and Zambezi saw mills, even by the end of the 1986 to 1987 financial year. Such improved performance contributed to improved turnover, profitability and other financial factors in the Group results. However, data gathered, needs to be analyzed for any positive contribution to socio-economic development; arising out of the financial results credited to enterprise reforms. This analysis is presented below and takes account of the fact that the results have been produced in an environment involving factors beyond the enterprise reforms. Reform results for 1986/1987 are presented in table 6 and paragraphs (a) through (g).

Table 5. Employment statistics of 17 Ghanaian PEs

Core SOEs	1986	1987	1988	1989
1. Ghana Cocoa Board				
2. Ghana Airways Corporation	1,958	1,741	1,682	1,605
3. Electricity Corporation Ghana	4,648	3,812	3,639	3,196
4. Ghana Water & Sewerage Corp.	6,794	6,558	6,287	5,743
5. Ghana Oil Company Limited	394	473	480	455
6. State Transport Corporation	2,479	2,479	2,298	1,802
7. Omnibus Services Authority	1,803	1,608	1,521	1,412
8. Ghana Supply Commission	257	264	265	226
9. Ghana Ports and Harbours Authority	4,774	4,774	4,774	3,052
10. City Express Services	3,569	2,959	2,537	3,052
11. State Shipping Corp. (BSL)	389	565	565	565
12. Ghana Railways Corporation	7,749	7,346	7,244	6,794
13. Ghana National Procurement Agency	496	471	291	310
14. Post & Telecommunications Corp.	7,585	7,585	7,210	7,250
15. Volta River Authority				
16. Ghana National Petroleum Corp.				
17. Ghaip	674	674	620	546
Total	43,569	41,309	39,413	34,487

Source: State Enterprises Commission

Table 6. INDECO performance: Financial data (at 1977 constant values) (K'000)

	1986/1987	1987/1988	1988/1989
Turnover	249,326	315,142	-
Profit after tax	21,199	28,426	-
Total assets	148,245	147,882	-
Long-term loans*	498,725	477,768	505,129
R.O.C.E. (%)	24.0	25.0	34.0

Source: Calculated from various INDECO annual reports

* At current values

68. At current value, the post-reform period has witnessed record increases in turnover from 1,373 million kwacha in 1986 to 2,267 million kwacha in 1987, to 3,502 million kwacha in 1988 and to 4,684 million kwacha in 1989. Even, in real terms, the result has marked a tremendous improvement in value of production. The profit figures after tax also increased correspondingly, as follows at current values: 192 million kwacha in 1987, 315,844 million kwacha in 1988 and 505,100 million kwacha in 1989. Consequently, the return on capital performance improved significantly, as indicated in table 6. This has been achieved under conditions of more or less stable levels of long-term borrowings.

(a) Local raw material resources

69. In the post-reform period, the INDECO local raw material situation has not drastically changed. The Group continues to be structurally dependent because of the underdeveloped basic heavy and chemical industries. And, the reforms package has not addressed this fundamental issue. Hence, the cry for foreign exchange and, all its consequences remains. Thus, even in the case of edible oils, where much effort has been applied "to increase the production of oil seeds in the country by offering attractive producer prices to farmers. In addition, processors embarked on a scheme aimed at enhancing both the quantity and quality of sunflower seed production by peasant. In order to facilitate the importation of edible crude oil, additional storage facilities are being installed at Dar-es-Salaam."[25]

(b) Local human resources

70. The programmes of manpower training and development have continued along the already indicated lines. However, "whilst the Group continues to invest substantially in training and, in fact, doubled the budgeted allocation for training in 1989/1990, it is worrying that exodus of trained staff to other sectors continues."[26] The amount spent on training reached the record high of 6.7 million Kwacha in 1989. Clearly in terms of quantity and monetary value, much progress has been made in human resources development. However, the "worrying" exodus is an indication that the appropriateness and utility value of the manpower development programmes are questionable. There is no indication that the reform programmes particularly address this deficiency.

(c) Local value added

71. The local value added from INDECO operations, at current values, increased beyond one billion kwacha in 1989. This was a continuation of the pattern established even before the reforms. The reforms were not concerned with this in any central way, because their orientation is towards the prioritization of factors of comparative advantage.

(d) Capacity utilization

72. In the post-reform period, there have been cases of INDECO enterprises increasing capacity utilization of their plants. However, performance in this regard continued to be a factor dependent on unearned foreign exchange allocation, rather than introduction of measures that provided a guaranteed sustainable basis of operations.

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[25] INDECO annual report, 1989 p. 18.

[26] Ibid. p. 8.

(e) Contribution to treasury

73. In current values, INDECO companies continued increasing their group contribution to Government coffers in the post-reform period, as was the case before the reforms. The pattern of increasing current value profits was established before the reforms, and was mostly a factor of increasing latitude and liberalization of pricing practices in the economy as a whole, as a result of macro-economic policy interventions, rather than any specific internal measures undertaken by companies to enhance efficiency or productivity.

(f) Essential commodity supply

74. The Group's capacity and performance, in terms of supplying essential commodities is related and corresponds to capacity utilization. The critical and determinant factor is the structure of production facilities, in terms of import dependency.

(g) Contribution to employment

75. The number of employment opportunities availed by the Group has been basically stagnant since the reform. This has been the case for the last decade and a half. The exact number of jobs offered by INDECO in the post-reform period have been 23,025 in 1987, 23,317 in 1988, and 24,100 in 1989. The small increase was due to the takeover of maize milling operations from private companies, as a result of food price riots at the end of 1986. The tendency was in fact for manpower reductions to be undertaken as a part of the reform packages.[27]

SECTION III

CONCLUSIONS AND RECOMMENDATIONS

76. The foregoing review suggests that, despite the world-wide privatization movement and talk of the "twilight of the state-owned enterprise", there is no doubt that PEs will continue to play a significant role in the economies of African countries in the future. This conclusion is, in fact, not unique to Africa. European and North American countries which have competitive market environments, for instance, have PEs in posts and telecommunications; electricity, gas and oil production; railways and airlines; motor industry; steel and shipbuilding. This ubiquity and relevance of PEs should not, however, justify the tolerance of persistently mismanaged and deficit generating PEs in Africa. Nonetheless, it is evident that wholesale privatization of PEs is not the panacea for the resolution of Africa's debts and national deficits problems. Overall, reforms and selective privatization of PEs would enhance their contribution to the socio-economic transformation and sustainable development of African countries.

77. It is true today as it was in the 1960s that, in most sub-Saharan African countries, an indigenous private entrepreneurial class, with the capital and capacity to operate large-scale enterprises, does not exist. The result is that local private entrepreneurs are mostly concentrated in small-scale informal and formal enterprises. In the circumstances, governments and foreign investors are left to fill large-scale enterprises gaps. Besides, more than 70 per cent of the populations of African countries are languishing in subsistence agriculture and could not be expected to engage in the establishment of modern businesses which require not only huge capital investments but also sophisticated corporate management. It is, thus, obvious that, given the rudimentary nature of the evolution of the private sector in African countries, the need will still be felt for the presence of the Government in enterprises that exploit non-renewable resources such as minerals and

[27] INDECO annual reports, 1986 to 1989.

oil; and others such as irrigation, power, electricity, water supply, telecommunications, health and education which are supportive of both private and public sectors of the economy.

78. The social and economic crises afflicting African countries since the early 1980s and the inability of PEs to live up to the challenge of economic recovery and development have intensified the search for ways and means of improving the role and performance of public sector enterprises. It is generally accepted that privatization should be pursued, not as an article of ideological faith, but as one of the strategies and techniques of boosting the productivity and efficiency of PEs in Africa.

79. Reform and privatization experiences have also revealed that whereas financial viability should be the bottom line criterion for the retention of an enterprise in the public sector, the need is increasingly being felt that the human dimensions of reforms, such as the retrenchment of workers, should not be ignored. In this regard, most African countries question the World Bank's readiness to prescribe socially unpalatable reform measures that cause unemployment but will not accept any measures that may constrain the financial profitability of a public enterprise.

80. A further observation on the financial improvements resulting from reform and privatization is necessary. Notwithstanding the apparent positive data on financial returns of the Ghanaian and Zambian reform programmes, it is obvious that the timeframe is too short for any objective conclusion on the long-term sustainability of positive financial results for the enterprises. There is also the argument that improvements in financial performance might be due more to factors inherent in macro-economic reforms rather than enterprise level reforms. In this connection, a comparative picture is required to determine the relative improvements and benefits which might have accrued to private enterprises as a result of macro-economic reforms.

81. It is also evident that practically all African countries are still experiencing structural rigidities as evidenced by the persistent dependence on external sources for raw materials and technology; the inadequate participation and development of indigenous human resources; the slow progress in the evolution and consolidation of intra-African co-operation; and the disproportionate dependence of the population on subsistence agriculture and survival activities. The dismal international economic outlook has also impeded the progress of PE reforms in Africa.

82. With hindsight, some PEs have, in their heyday, contributed immensely to the development of the social infrastructure of some African countries. That these enterprises have, in the last decade or so, been performing poorly should, therefore, be seen in a temporal as well as in the context of internal and international economic relations. The internal demands and expectations of the populations have become more complex and enormous while the international economic environment has become more business-like, competitive and protectionist. It is, thus, clear that PEs in Africa do not have the in-built dynamism to respond quickly to the ever-changing world of business management. In this respect private sector enterprises in Africa are in the same boat with PEs.

83. Finally, there is no doubt that African countries are committed to the improvement of the overall performance of all units and actors in the economy. The relatively slow rate of PE reforms and privatization could, therefore, be attributed to political, social, economic and global factors which are beyond the immediate control of government authorities. Local investors are willing but do not have the huge capital resources and expertise to takeover State-emterprises; the entrepreneurial and managerial capacity of the local population and banking institutions are not adequately equipped to handle multifarious portfolio issues which individuals may be offered to encourage popular participation in privatization; and investment climate in most African countries leaves much to be desired relative to the expectations of local and foreign investors. In the final analysis, some PEs are being wound up or closed down in desperation; some are being

privatized; and others are being reformed. The caveat is that PE reform and privatization policy decisions and practical measures must be pragmatic, country-specific, and based on well-informed analyses of the ramifications of the issues at stake.

B. Recommendations: Strategies to strengthen reform and privatization of PEs in Africa

84. The task of ensuring that PEs operate efficiently and cost-effectively, that they carry out their mandate without becoming a burden on national budgets is of utmost importance. This task rests with those who have been entrusted with the onerous responsibility of guiding the transformation and sustainable development of the economy in the public interest of the population. Reform and privatization are both legitimate strategies of improving and strengthening the role and effective performance of PEs. The policy and strategic measures recommended in this report are, therefore, intended to provoke dialogue and practical action to bring about reforms which would improve the efficiency of both public and private sector enterprises as partners in national development-with-equity.

(i) Creation of enabling macro-environment

85. Political pronouncements on commitment to macro-economic reforms need to be translated into concrete political decisions to move the economy. Thus, under the appropriate macro-economic and political regimes, both public and private enterprises will be inspired to operate efficiently in the interest of national development. Rationalization of political systems to eschew the elements of instability and unhealthy conflicts would create the enabling environment and business climate so essential for increased productivity of a nation's productive forces. Political leaders owe their people the responsibility for the democratization of development through the political process. How this is to be done remains the prerogative of each nation. In this regard, AAF-SAP, the Khartoum Declaration on Human Dimension of Development, and the African Charter on Popular Participation in Development provide the contours of minimum requirements for the democratization of the enabling environment for economic transformation and development.

86. Decentralization of political-economic powers for decision-making would enable local government authorities to reflect the development aspirations and expectations of grass-roots in national policies and strategies on public and private enterprises. The liquidation of produce marketing boards for cocoa and coffee could be used to drive home the crux of the recommendation on decentralization mooted in this paragraph. As part of the national socio-economic restructuring of PEs, some governments liquidated national marketing boards in the hope that farmers would make their own arrangements for the sale of their cocoa and coffee. Instead, the farmers who were generally illiterate decided to cut down the coffee and cocoa trees and to plant plantains and cocoyams which have a ready local market with less cumbersome marketing activities. In due course, local government authorities were requested by the Central Government to account for the shortfall in coffee and cocoa supplies from their areas of jurisdiction. On investigation it was discovered that the dissatisfaction of local peasants was much more with the non-payment or delayed payment of proceeds from the sale of their produce than with the level of prices.

87. Decentralization will further enable the Central Government to prioritize national development requirements and avoid engaging in the establishment of enterprises which are irrelevant to a country's development needs and resources. Wasteful prestige projects could be avoided if the views of the local population were taken into consideration. Local governments are also focal points for the stimulation of entrepreneurial initiatives at the grass-roots. Good government will thus create harmonious conditions for local initiatives in the production and exchange of goods and services. This would free the central Government from the task of establishing PEs such as milling enterprises for maize to meet local demand for the processing of locally grown foodstuffs.

(ii) Macro-level economic liberalization

88. It is axiomatic that the State is better placed to provide the enabling environment for all economic units and actors to operate harmoniously for their mutual benefit and in the interest of national development. It is proposed that each nation should re-examine its monetary, fiscal and incomes policies to liberalize those aspects which have adverse effects on the efficiency of the economy as a whole. Examples of unhealthy macro-economic policy instruments include unrealistic exchange rates; haphazard credit restrictions; price controls without knowledge of the behavior of demand and supply forces; pernicious import restrictions; cumbersome bureaucratic business regulations and formalities that engender inefficiency and extensive corruption which destroys the moral fabric and ethics of a nation; and taxation practices which are clearly not in the interest of the development of the informal sector nor that of the Government treasury. It has been indicated that liberalization does not lead automatically to enterprise efficiency. The level of education of the population; the availability of entrepreneurial skills and managerial culture; the production structure and production relations as well as the attitude of the population to profits, wealth and business relations are all factors which must be considered prior to the operationalization of a liberalization programme aimed at business enterprises. There may be need for the Government to undertake an extension and promotional orientation programme prior to the implementation of a liberalization programme to bring the population into the mainstream of doing business in today's volatile socio-economic environment. The human dimension of development should not be ignored in the liberalization process. The latter must be contextualized more in the interest of the local population and less in the interest of foreign investors who also have their own interests to protect. The interests of the State, local and foreign investors should be perceived as mutual and self-reinforcing.

(iii) Integrating PEs and private sector enterprises (PSEs) relations

89. Economic reforms which remove impediments to the business operations of both PEs and PSEs would improve the performance of the whole population irrespective of the economic activities in which they are engaged It could be argued, for instance, that PSEs derive enormous benefits from the contrived inefficiency of the public sector. This argument is not difficult to illustrate. Dispassionate conclusions could be made from observations from several African countries. It is a fact that in some African countries many PSEs can, through bribery of relevant Government officials, obtain more liberal grants of import licenses than their counterpart PEs. In addition, PSE owners have the leeway to influence Government officials to bend the rules to enable them evade or avoid tax obligations or to smuggle contrabands across national boundaries. In this way, private enterprises are able to benefit or make profits from the spoils of public sector unethical management to the disadvantage of PEs managers. Guarantee of uniform enforcement of rules and regulations on public and private enterprises would integrate the public sector conduct of economic affairs. Since the problem of discriminatory treatment arises from human behavior rather than from the laws of the land, it is suggested that all African countries should embark on a programme of education in ethics involving all public sector officials, including those whose hands have not yet been soiled by the epidemic of corruption.

(iv) Public enterprise control and related factors

90. The lack of clear and consistent objectives, the financial burden of social responsibilities and the absence of an adequate mechanism for monitoring and evaluating public enterprises have all been classified as some of the causes for the poor performance of public enterprises. Indeed, in some view, an element of inefficiency is inherent in the very nature of the public enterprise as a hybrid; - sharing characteristics of government bureaucracies and those of private business enterprises. As a business enterprise, the public enterprise faces all the tests of the market and the pressure of the business environment; as a public

organization the public enterprise must be responsive to the needs of the dominant political forces and subject to the constraints and opportunities offered by being part of the public service chain of command with their implications for the appointment, removal and remuneration of public enterprise management.

91. Although the adverse impact of the public organization aspect of public enterprise is observed in all countries, there is reason to believe that the situation in Africa is worse than elsewhere. Appointments to the managements of public enterprises have been a source of extensive political patronage. The removal of management of public enterprises has been too frequent and arbitrary. To an extent, this situation is a reflection of the lack of political stability in many African countries. The too frequent and violent changes in government in many African countries have resulted in too rapid turnover in the top management of public enterprises. This has tended to affect adversely performance of these enterprises, increased the risks attached to managerial office and reduced managerial initiative. With regard to remuneration, the location of public enterprises in the hierarchy of the public service has meant that public enterprises managers often receive small fractions of the remuneration received by their counterparts in the private sector.

92. A important means of improving the effectiveness of public enterprises in Africa, therefore, is the clearer definition of the roles and functions of the various national bodies in the larger public system which have something to do with the operations of the public enterprise. The first step in this task of role clarification is the appointment of competent people to the corporation supervisory boards, and the grant to these boards of greater autonomy in corporate decision- making. Often the insistence that major government ministries should have representatives on boards of virtually all public enterprises, overburden the few civil servants of enough experience to be suitable for such appointments and reduce their effectiveness as board members, since they are unable to devote sufficient attention to the affairs of one board. Sometimes also, people who have neither the experience or professional competence to contribute effectively to the work of supervisory boards are appointed for reasons of political patronage. Governments are more likely to grant autonomy to supervisory boards if the public enterprises are able to achieve acceptable levels of performance with respect to output or financial targets. A useful institutional device for ensuring enterprise autonomy is a negotiated performance contract based on a corporate plan.

93. The government ministries which are often the supervisors and controllers of public enterprises are usually not well equipped for the task. These ministries usually do not have the financial analysts, auditors and personnel with enough business experience to effectively monitor, evaluate and supervise these enterprises. Also control by ministries leads to fragmentation of controls, for when each ministry is responsible for the public enterprises in its sector, it becomes difficult to ensure a unitary and coherent guidance of the public enterprises sector. A single supervisory authority with its own secretariat and professional staff to provide specialist services and advise to public enterprises and monitor the enterprises on behalf of the government can be useful. Such an authority will need to be given the resources to recruit adequate members of well qualified and experienced staff. In the absence of this, such a body will run the risk of superficiality, and lack credibility with both the government and the public enterprises.

(v) Improvement in performance within public enterprises through human resources training and development

94. Measures to improve managerial performance within public enterprises are crucial for their effectiveness. There is the need to ensure that competence is the major criterion for the appointment of public enterprise managers. Therefore, managers should have appropriate educational background with training in relevant fields such as statistics, psychology, economics, business administration, engineering and other technical fields. Managers will then need management training which will give them some exposure to techniques and theory in such areas as marketing, finance and general management. Management training

should also seek to improve their skills in the major management tasks such as evaluating the work of subordinates, diagnosing and solving problems, and give them some basic technical knowledge of the machines, processes and products of their enterprises. It has been suggested that since inside the enterprises, the management skills needed by public enterprise managers are much the same as those required by their private sector counterparts, there are some advantages in training managers from the two sectors together so that they can exchange experiences.

95. Properly trained managers will be capable of analyzing the problems of their enterprises and have the confidence to attempt to find solutions to them. There are a number of typical enterprise operations which are capable of being improved if a conscious effort is made to find ways of effecting improvement. Some of these possibilities are improvement in production planning which leads to better utilization of labour, material and equipment; improvement in plant maintenance, which leads to reduction in plant down tenure, reduced wastage and rejects, reduced spare parts inventories; improvement in material control and quality control, with resulting improvements in raw material yields and reduction of wastage; improvements in stock control systems which give savings in inventories and improved inventories turnover; better product costing methods to improve pricing policy; better information systems which lead to more effective financial control.

96. In the final analysis, a great deal will depend on removing the factors which reduce the prestige and attractiveness of managerial positions in public enterprises. If public enterprise managers are not subjected to arbitrary dismissals, and are not too poorly remunerated, public enterprises will be able to attract and retain high calibre managers who will be capable of effecting improvements in the operations as outlined above.

(vi) Improving corporate plans as a management instrument and basis of contract plan with government

97. More often than not political interference in the day-to-day management of PEs has been identified as one of the problems of public enterprises performance. Although it could be argued that this interference is much more pronounced in PEs it cannot be gainsaid that private enterprises are also subject to political interference or interference by shareholders. In some cases, political interference could be used as a smokescreen for inefficiency. It is, therefore, up to managers of PEs to come up with concrete facts on the adverse consequences of political interference in specific cases. Some managers have been known to stand their ground by refusing to reinstate a dismissed staff notwithstanding instructions from the highest political quarters in the land. While such resilience to political interference could be applauded, a more objective approach would be for PE managers to prepare corporate plans as instruments of management control and success. Deviations from plans could be determined through variance analysis. Deviations due to political interference could then be articulated for the attention of the Government as the stakeholder or owner of the enterprise.

(a) Improving the preparation of corporate plans

98. Public enterprises should be encouraged, albeit mandated, to draw up corporate plans to improve managerial effectiveness, guide the operations of these enterprises as well as serve as a basis for the negotiation of performance contracts with the Government. Corporate plans are expected to map out the medium and long-term objectives of an enterprise and the strategies of achieving these objectives in the light of the enterprise mission. They need to be constantly revised and dynamized to reflect the ever changing environment in which enterprises, and particularly PEs, operate.

99. A corporate plan would cover the entire components of the enterprise including environmental factors such as macro-economic factors and trends which could influence the performance of the enterprise. Thus,

the environmental analysis section of the corporate plan would review the relevant factors of the overall economy and sectoral trends; market outlook; forecast of inflation rates, exchange rates and cost trends; review of performance in the past year(s) and general economic outlook of market forces. Other components of the corporate plan would include articulation and formulation of enterprise mission, objectives and strategies; determination and projection of performance targets with specific statements on absolute and relative profitability, productivity, liquidity and capital gearing levels; statement and articulation of investment, operating, financial, human resources/personnel management, and maintenance plans of the enterprise. Thus, armed with a corporate plan covering all aspects of the enterprise, the PE manager will be more effective in achieving enterprise mission and objectives as well as having the basic tool for negotiating performance contracts with the Government to enhance autonomy from political interference.

(b) Contract plan/performance contract plan

100. The idea of a contract plan between PEs and the Government to strengthen the autonomy of PEs from political and State interference was initiated in France and extrapolated, as it were, to Francophone African countries, in the first instance. Whereas governments in both the industrialized and less developing countries have often been accused of not honouring their own obligations under contract plans, it is important for PEs managers to prepare detailed corporate plans which could be used as a basis for determining the actual culprit responsible for the poor performance of specific public enterprises. In an objective performance evaluation against the backdrop of a carefully prepared corporate plan, it could be discovered that factors responsible for poor performance of the PEs might well be outside the control of both the Government and public enterprise managers themselves. In the circumstances, sound and effective decisions would be made on how to overcome the problems of the PEs.

101. Performance contract plans are based essentially on corporate plans. They provide details of performance targets; performance incentives; and levels of expected Government support. A typical contract plan for corporate performance and autonomy would, among other things, outline the mission and objectives of the relevant PE; performance indicators and targets on profits, productivity, fuel consumption efficiency, completion and auditing of accounts for submission to Government, employment, and Government obligations on issues like reducing social objectives, facilitating loan negotiations, a system of monitoring, reporting and review, and a set of incentives and sanctions linked to the fulfillment or non-accomplishment of agreed targets. These performance and autonomy contracts are generally signed between a public enterprise and the appropriate sector ministry, on behalf of the Government. The Ministry of Finance and state enterprises commissions which monitor performance in some countries also sign the contract plans.

102. A performance-based incentive scheme could also become part of the performance contract plan. In the case of Ghana, selected performance indicators include sales, profits, labour productivity, payment of taxes and dividends, and completion of accounts. It could be suggested, based on the Ghanaian experience, that selected performance indicators be weighted to arrive at an optimal performance index of one. Thus, these indicators would comprise net profits (.5); completion of accounts (.1) and other indicators already mentioned (.4). Some of the elements of the incentive scheme will be financial, for example, bonus payments linked to the fulfillment of targets; non-monetary incentives such as annual award ceremony for best performing public enterprises in the different categories of performance. The scheme will also include sanctions such as salary freeze and non-payment of bonus as well as dismissal of managers whose enterprises perform below agreed targets. The Pakistan Signalling System (PSS) for the evaluation of public enterprises also uses weighted criteria and targets such as profitability (.5), physical production (.2), productivity (.1), corporate planning (.1), energy consumption (.05), and indigenisation (.05) to monitor improvement targets and results achieved by relevant public enterprises. Each country could, thus, come up with a set of weighted criteria and performance targets for its own PEs. In furtherance of intra-African co-operation and economic integration leading to African Economic Community (AEC) workshops could be held at the

subregional and regional levels to discuss and harmonize a consolidated system of performance indices for the improvement of PEs performance in Africa. In this regard, African countries would do well to explore the opportunities available under projects such as the Special Action Programme for Administration and Management (SAPAM) in Africa.

(vii) Strengthening the institutional framework to operationalize reform/privatization programmes and sustain improved performance of PEs

103. The proliferation of institutions of the PEs management does not necessarily lead to improved performance. The functioning of institutions is, therefore, more important than their elegance, numbers or size. Some countries prefer the supervisory management of PEs by sectoral ministries; others choose the configuration of umbrella companies/corporations/agencies to bring together and oversee all PEs irrespective of sectoral location; and other countries have a combination of umbrella agencies and other hybrid institutions to oversee the performance of their PEs. State enterprises commission/public enterprises commission have been put in place in other countries to act as umbrella institutions for public enterprises. These institutions could be given the required resources to operate also as committees on PEs reform and privatization.

104. The experience of Ghana suggests that a State Enterprises Commission (SEC) as a more permanent agency could be strengthened to carry out its mandate much more effectively. A Divestiture Implementation Committee (DIC) could be constituted and charged with responsibility for the implementation of a reform and privatization programme. The DIC could function under the SEC auspices but separate from SEC given the flow chart in this report. In effect, it is important to strengthen the institutional framework for the monitoring and evaluation of the performance of PES and to create a focal point in Government for the efficient handling of issues on reform and privatization programmes in a systematic manner. It is, therefore, essential for all African countries to re-examine the roles and responsibilities of all Government institutions (State Enterprises Commissions, Sectoral Ministries including Ministry of Finance and Economic Planning) which have some role to play in the success or failure of public enterprises. Private sector representatives on reform and privatization agencies of government could bring their experiences to bear on the orientation of PEs reform and privatization.

105. Whatever institutions are constituted to operationalize the reform and privatization programmes, it is important to provide them with the required technical and logistical support to ensure that they function as expected. It is also important to appoint competent and professional people to these institutions. Overall, experience indicates that the preparatory phase for PEs reform is crucial and could be protracted. Political commitment needs to be translated into practical action to support the implementation of reform programmes.

(c) Selective privatization as the overwhelming choice

106. The review of experiences indicates that wholesale privatization is unrealistic and has, therefore, not been advocated by any African country. Reform of PEs is feasible. The decision to privatize need not be doctrinaire but should be based on objective analysis and the contextual relevance of each enterprise within the public policy paradigm of individual African countries. Selective privatization and mandatory reform of the public and private sector enterprises would seem to be the mode of experiences in nearly all African countries.

107. In some situations, liquidation and closure of public enterprises have been the only options available to the Government. If, for instance, it is considered that reforms will not resolve the technical and financial problems of an enterprise on a sustained basis or efforts to privatize have failed, then liquidation could save the taxpayer from further tax burdens. If the liquidation option is chosen, then the process should be

speeded in order to avoid a situation whereby the emoluments of liquidators could exceed payments which would have been made to settle the claims of peasants who may have deposited their meagre savings in, say, State-owned banking institutions. The consensus is emerging that surviving PEs should be exposed to competitive market forces. They should be given the mandate to operate efficiently in competition with their private sector counterparts or face the alternative of closure and liquidation.

108. The paramount importance of a conducive political environment for all economic activities cannot be overemphasized. Similarly, there is universal agreement on the essence of efficiency and cost-effectiveness in all aspects of public enterprises operations. Economic and enterprise reform programmes are underway in practically all African countries to meet the challenges of economic transformation and sustainable development in the 1990s and beyond.